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State could make money if it stopped taxing itself

Faced with a huge budget deficit, California officials want to raise your taxes. But Orange County's representative on the tax collector thinks there's another way to raise revenues.

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SACRAMENTO State officials want to raise your taxes to balance the budget.

Assembly Democrats suggest an increase of $6.4 billion. Senate Democrats, $11.5 billion. Even our Republican governor has proposed raising taxes if voters don't approve a controversial fix involving the state lottery.

"As the deficit grew," Gov. Arnold Schwarzenegger said last month, "I … knew that we could not just make it with cuts alone, that we need additional revenues."

But a tax increase isn't the only way. Michelle Steel, Orange County's representative on the Board of Equalization, has learned the state could boost revenues if it simply stopped taxing itself.

That's right, the state taxes itself.

According to Section 6005 of the state Revenue and Taxation Code, the state of California must pay sales tax to itself on items purchased from private retailers.

Think about what this means. The Department of Transportation buys a truck from an auto dealer in Santa Ana. The dealer charges Caltrans for the price of the truck, plus sales tax. Caltrans pays it. Then the dealer holds the tax revenue until it has to file a return with the state. That can take several weeks. Or months. Even a full year.

All the while, that money is gathering dust in a private bank account. The dealer can't use it, he owes it to the state. The state can't use it, it's in the dealer's bank account. The money's just sitting there, not doing anybody any good.

Now imagine if the state was like the federal government and didn't have to pay sales tax. Instead of that money just sitting there, the state Treasurer could invest it. The state could earn interest.

That might not sound like much, but we're talking about billions in purchases here. If the state had to stop paying sales tax to itself, it would have an additional $330 million to $360 million to play with, year round. Investing that could yield millions in extra revenue.

That wouldn't solve a $17 billion deficit, but as Steel said, "If you correct all this small stuff, you don't have to raise taxes so much."

Now, this proposal likely would be opposed by local governments, which receive about $80 million to $90 million in tax revenue from state purchases. They probably wouldn't like to see their revenues cut. But the state could work out some sort of transaction to backfill the locals, which could reduce the state's new-found investment, pool to as low as $240 million to $270 million.

Or the state could say, "no, local governments were never entitled to that extra money" and simply keep it all for itself. Either way, the state would make more.

"In theory, it does not seem to make a lot of sense," said Jon Coupal, president of the Howard Jarvis Taxpayers Association. "However, there may be practical reasons having to do with the administration of taxes that make just it easier for the retailer to collect it."

Some of these things, however, are just plain bizarre. While writing this story I learned of a ridiculous scenario where the Board of Equalization, the state's tax collector, actually wrote a check to itself.

Seriously. State law also requires state agencies to collect taxes and funnel them back to the state. That forced the Board of Equalization, which sells booklets, to write a check to itself in July of last year for $6,939. Accompanying it is a five-page tax return, meticulously filled out. Talk about needless bookkeeping.

"It just doesn't make sense," Steel said. "You and I can laugh about it, but people in government don't see it."

Let's see if they do now.

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State also charges itself use tax

By BRIAN JOSEPH
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If you think it's crazy that the state charges itself sales tax, consider this: it also charges itself use tax.

Never heard of use tax? It's a tax on products purchased out of state but used in California. For the average Californian, that means if you buy, say, a toaster in Arizona, you're supposed report it the tax collector and pay a tax.

The idea is to compensate for lost sales tax revenue when products are purchased out of state.

But like the issue with sales tax, charging the use tax to state agencies doesn't net California government any additional revenue. It just takes money from one agency and gives it to another. The Board of Equalization, the tax collector, even paid some $30,000 in use tax to itself last fiscal year.

What's more, Board of Equalization member Michelle Steel's office told me the use tax is so confusing that state agencies often make mistakes on their returns. And guess what happens when there's a bad return. They're assessed interest and penalties. Then they're audited.

So you actually have government officials spending time and money filing and reviewing returns that net the state nothing.

It's the definition of waste.